

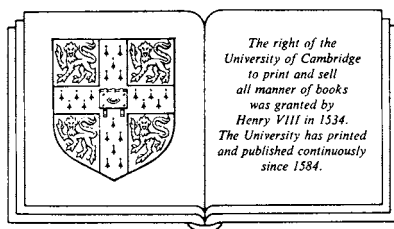
# The corporation under Russian law, 1800–1917

A study in tsarist economic policy

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Studies of the Harriman Institute



Cambridge University Press

*Cambridge*

*New York Port Chester Melbourne Sydney*

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge CB2 2RU, UK  
40 West 20th Street, New York NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

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First published 1991

First paperback edition 2002

*A catalogue record for this book is available from the British Library*

*Library of Congress Cataloguing in Publication data*

Owen, Thomas C.

The corporation under Russian law, 1800-1917: a study in Tsarist  
economic policy / Thomas C. Owen.

p. cm.-(Studies of the Harriman Institute)

Includes index.

Includes bibliographical references.

ISBN 0 521 39126 1

I. Corporation law - Soviet Union - History. I. Title.

II. Series.

LAW

346.47'066-dc20

[344.70666] 90-36148 CIP

ISBN 0 521 39126 1 hardback

ISBN 0 521 52944 1 paperback

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## *Zakon* (The law), 1800–1856

It is well known that the laws describe, so to speak, the internal life of the state. In them we see how its moral and political energies have come into being, taken shape, grown, and changed. Consequently, without knowledge of the laws, the history of the state can be neither clear nor authentic; and by the same token, laws without history often remain incomprehensible. Thus, the more promptly the laws are published, the more the sources of history will be available to contemporaries and the more authentically they will be made known to posterity.

– Mikhail M. Speranskii<sup>1</sup>

It is one of the many ironies of Russian history that, as the tsarist empire gained influence in European political life by virtue of its diplomatic and military achievements, it gradually fell further behind Europe in terms of economic development. This process of increasing relative economic backwardness appears to have gathered momentum in the reigns of Catherine II (1762–96), Paul I (1796–1801), and Alexander I (1801–25). All three monarchs prided themselves on their bold vision and admiration for certain aspects of Western European culture: enlightened administration, Prussian military efficiency, and the Napoleonic reforms to 1811, respectively. However, the problem of economic backwardness apparently escaped their notice entirely. Russian armies marched triumphantly across Europe in 1799 and 1814, but economic output increased so slowly that the Russian economy failed to keep pace with that of the other major European powers.<sup>2</sup>

### The international context

These patterns may be explained largely by the persistence of institutional obstacles to modern commercial practice under tsarist rule. The Russian

<sup>1</sup> Mikhail M. Speranskii, in Preface to Russia, *Polnoe sobranie zakonov Rossiiskoi imperii, sobranie 1*, 46 vols. (St. Petersburg, 1830–9), vol. 1, xvii.

<sup>2</sup> The following comparative figures are drawn from B. R. Mitchell, *European Historical Sta-*

merchant, although shrewd and diligent, relied more on intuition and the aid of loyal friends and relatives than on rational calculation and an understanding of trends in the world market. Double-entry bookkeeping, bills of exchange, and forecasts of economic trends remained mysteries to the ordinary merchants of the Russian provinces outside the ports of the Baltic and Black seas. English and American merchants in Russia in the early nineteenth century marveled at the skill of illiterate Russians in the use of the simple abacus, but they noted also the merchants' reliance on other hallmarks of their traditional culture: secrecy, cheating, and evasion in dealing with strangers. Such techniques proved more likely than honesty to win a tidy profit in the absence of a modern banking system, of strong legal guarantees of the right of private property, and of governmental policies favorable to commerce and industry. One British merchant noted the pride with which Russian merchants turned a dishonest profit: "A dextrous theft in the way of overreaching is regarded by them as the very triumph of their genius."<sup>3</sup>

As the industrial age began, the highly developed system of European commercial practices provided a firm organizational foundation for the emergence of the modern corporation. The international commodities markets managed the flow of cotton from the American South through the ports of New Orleans, Savannah, and Charleston to Liverpool and thence

tistics, 1750-1975, 2nd rev. ed. (New York, 1981), 412-13, 418; British figure for 1720 from B. R. Mitchell and Phyllis Deane, *Abstract of British Historical Statistics* (Cambridge, England, 1962), 131:

*Russian and European pig iron production, 1720-1830 (thousands of metric tons)*

Year	Russia	Great Britain	France	Germany
1720	10	25	—	—
1730	16	—	—	—
1740	25	—	—	—
1750	33	—	—	—
1760	60	—	—	—
1770	84	—	—	—
1788	125	69	—	—
1796	123	127	—	—
1806	146	248	—	—
1818	127	330	113 (1819)	—
1824	140	462 (1823)	198	85
1825	158	591	199	95
1830	187	688	266	110

<sup>3</sup> Peter Putnam, ed., *Seven Britons in Imperial Russia, 1698-1812* (Princeton, 1952), citing reports by John Carr (1804), William Coxe (1801), and Robert Kerr Porter (1805-7), 286 note 41, 274-5, 313 (quoted).

to spinners and weavers throughout Europe, including St. Petersburg and the Moscow region. Central to this system was the smooth functioning of expert brokerage houses, often staffed in the major cities by trusted friends and relatives of the senior partners in London, Paris, or Hamburg. Alfred D. Chandler stressed that this form of pre-corporate capitalism, based on the family firm or partnership, had evolved out of the late medieval mercantile practices of Italian and Flemish traders. In the early nineteenth century it still rested on the same devices that had emerged more than five centuries before: market reports, expertise in handling exchange rates among major currencies, and double-entry bookkeeping.<sup>4</sup>

However, it is no less important to note that this sophisticated world-wide system had made scarcely any imprint on the Russian merchants as late as the reign of Nicholas I (1825–55). Following the destruction of Novgorod and its Hanseatic German community by Moscow in 1494, could Russian merchants even have dreamed of emulating the entrepreneurial talents of the merchant adventurers of England, whose trade in woolen cloth in Norway, Spain, Prussia, and the Netherlands began in the late fourteenth century and lasted for centuries thereafter? Could the most cosmopolitan of Russian cities, St. Petersburg, have rivaled Amsterdam, which, since the seventeenth century, had functioned as a center of commercial information throughout the world?<sup>5</sup> As the French say, to ask the question is to answer it.

To this impressive system of international commerce the major European powers added the corporation. The essential feature of the corporation, the principle of limited liability of investors, enabled this form of enterprise to dominate the market-oriented economies of the modern world. This principle attracted massive amounts of capital into commercial, financial, and industrial projects too large for an individual or a partnership to undertake safely. To be sure, the participation in a single business venture by hundreds of persons unknown to one another also carried special risks: the dangers of fraud and speculation practiced by managers against the interests of the stockholders and the public. The

<sup>4</sup> Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977), chap. 1: "The Traditional Enterprise in Commerce," describes these institutions of world trade on the eve of the industrial age.

<sup>5</sup> The early history of the merchant adventurers is described in Eleanora M. Carus-Wilson, *Medieval Merchant Venturers*, 2nd ed. (London, 1967), chap. 3. On Amsterdam as a major information exchange, see Woodruff D. Smith, "The Function of Commercial Centers in the Modernization of European Capitalism: Amsterdam as an Information Center in the Seventeenth Century," *Journal of Economic History*, 44, no. 4 (Dec. 1984), 985–1005.



restrictive corporate legislation passed by the major European governments in the wake of the South Sea Bubble of 1720 can best be understood as an effort to encourage the beneficial effects of corporate activity while minimizing the harmful ones. Strict controls persisted throughout the eighteenth century. In France, the revolutionary National Assembly briefly outlawed all companies with unnamed shares, which were susceptible to speculation, and required that all corporations henceforth receive legislative approval.<sup>6</sup>

However, as the benefits of corporate enterprise became clear in the early industrial era, restrictions gradually fell away. In England, all enterprises except banks were allowed to incorporate freely under the Companies Act of 1844, and their investors obtained limited liability in 1856. Faced with the strict provisions of the Commercial Code of 1807, which required that each new corporation (*société anonyme*) receive a special charter from the national government, French entrepreneurs adapted to the needs of the modern economy the limited partnership, or *société en commandite*, whose investors (*commanditaires*) but not partners (*commandités*) enjoyed limited liability. In the early nineteenth century, a new, quasi-public corporation became popular, called the *société en commandite par actions*, the shares of which were bought and sold publicly. Like the simple and limited partnership, it was managed by partners, who bore full liability for the debts of the enterprise; however, as in the *société anonyme*, its basic capital was divided into shares (*actions*), which circulated freely on the stock exchange. These stockholders did not participate in the management of the company, even to vote, but they did enjoy limited liability. This arrangement allowed the full partners to maintain control of the enterprise while attracting needed capital from the public. Despite public concern prompted by episodes of stock-exchange speculation in the 1830s, a bill to outlaw the limited partnership failed in the National Assembly in 1838. Following the implementation of restrictions on the *commandite* in 1856, the legislature in 1867 allowed the establishment of the *société anonyme* by registration instead of state concession, a change that opened the way for hundreds

<sup>6</sup> A good discussion of the South Sea Bubble and the Bubble Act of 1720, which made incorporation difficult and led English businessmen to devise the unincorporated joint-stock company, is Armand B. DuBois, *The English Business Company After the Bubble Act* (New York, 1938; reprinted 1971). The restrictions on corporations decreed at the height of the French Revolution (Aug. 24, 1793–Nov. 1, 1795) are discussed by Charles E. Freedeman, *Joint-Stock Enterprise in France, 1807–1867: From Privileged Company to Modern Corporation* (Chapel Hill, 1979), 9–10.

of new corporations and consigned the *commandite* to obscurity.<sup>7</sup> Prussia followed suit in 1870.<sup>8</sup>

By the middle decades of the nineteenth century, therefore, the major European economies had adapted to the dynamism of the corporation. Before turning to the fate of the corporation under Russian law, we must examine another feature of economic history in the modern world. In the felicitous terminology of the comparative historian Douglass C. North, variations in the economic performance of different countries in the past several centuries reflected more than the operation of trends susceptible to neoclassical economic analysis. It is essential to apply “a theory of property rights that describes the individual and group incentives in the system”; also needed are “a theory of the state, since it is the state that specifies and enforces property rights,” and “a theory of ideology that explains how different perceptions of reality affect the reaction of individuals to the changing ‘objective’ situation.” In early modern Spain, for example, in contrast to the Netherlands and Britain, the lack of firm property rights hindered entrepreneurship.

The widely reported observation that the *hidalgos* had an aversion for trade and commerce and a preference for careers in the church, army, or government suggests that they were rational men. The structure of property rights that evolved in response to the fiscal policies of the government simply discouraged individuals from undertaking many productive activities.<sup>9</sup>

These three qualitative aspects of economic history – property rights, state policy, and ideology – deserve special attention in the Russian case as well. In the first category may be included various obstacles to the emergence of a vigorous merchant class in Muscovy and the Russian Empire, such as the ban on the ownership of populated land by merchants until 1861 and the perpetuation of communal ownership of land by peasants until the early twentieth century. The most capable finance ministers, from Egor F. Kankrin to Sergei Iu. Witte, imposed a bewildering variety of economic restrictions that proceeded logically from the state’s autocratic power to define and manipulate, largely for its own fiscal purposes, the social

<sup>7</sup> Freedeman, *Enterprise*, esp. chaps. 5–6.

<sup>8</sup> The law of June 11, 1870 in the North German Confederation is discussed in Hans Würdinger, “Aktiengesellschaft; Recht der AG; Geschichte und Struktur,” in Ervin von Beckerath and others, eds., *Handwörterbuch der Sozialwissenschaften*, 12 vols. (Stuttgart, 1956–65), vol. 1, 124.

<sup>9</sup> Douglass C. North, *Structure and Change in Economic History* (New York, 1981), 7–8, 151–2.

estates (*sosloviia*) that it ruled. Finally, the ideology of the bureaucrats must be contrasted to that of the commercial-industrial elites, with particular attention to the conflicts over economic policy in the final decade of the imperial period.

In the chapters that follow, North's analytical approach will prove useful in illuminating several crucial aspects of corporate development under the last four Russian emperors. Restrictions on the right of corporations to own certain kinds of property severely constrained the development of the economy from 1863 onward. The state imposed these and other fetters on corporations within the framework of the particularly repressive corporate law of 1836; it refused to enact significant reforms of this law in the following eight decades, despite increasingly vociferous demands by capitalist leaders throughout the empire; and it continued to the very end to exercise a form of tutelage over corporations that acted as a distinct disincentive to corporate entrepreneurship. The ideological preconceptions that underlay this policy met a serious challenge from the Russian corporate elite, which, by 1905, had matured sufficiently to articulate its own vision of a freer and more rational economic policy toward corporations. However, the state refused to modify its essentially arbitrary and inconsistent laws in the interest of rationality and positive incentives, despite the deleterious consequences of such laws. This autocratic impulse remained remarkably constant over the centuries, an element of continuity in tsarist policies toward the corporation from the era of Peter the Great to the very eve of World War I.

### Russian corporate law before 1836

Neither the benefits nor the shortcomings of the corporation were much appreciated in Russia before 1825, owing to the infinitesimal number of companies chartered by the imperial government.<sup>10</sup> Following the example of the Western European governments in the eighteenth century, Russian policy makers required that every corporation receive a special charter from the state. The advantages of this so-called concessionary system of

<sup>10</sup> The only substantial studies of these companies are N. N. Firsov, *Russkie trgovopromyshlennye kompanii v pervuiu polovinu XVIII stoletii* (Kazan, 1896); Aleksandr S. Lappo-Danilevskii, "Russkie promyshlennye i trgovye kompanii v pervoi polovine XVIII veka," *Zhurnal ministerstva narodnogo prosvetsheniia*, 320, no. 2 (Dec. 1898), part 2, 306-66, and 321, no. 2 (Feb. 1899), part 2, 371-436 (reprinted as monograph, St. Petersburg, 1899); and A. I. Iukht, "Torgovye kompanii v Rossii v seredine XVIII v.," *Istoricheskie zapiski*, 111 (1984), 238-95.

incorporation were several. First, only those projects that promised substantial benefits to the state and the economy would be permitted. Second, the number of applications was bound to be small, in view of the considerable time and expense required to take the draft charter through the bureaucratic maze. Third, the clauses regarding the financial structure of the company strictly defined the responsibilities of the managers toward investors so as to minimize opportunities for fraud. Finally, the prestige of the state would stand behind the new enterprise, thereby helping to coax capital investments out of the pockets of a public unused to capitalist institutions imported from Western Europe.

From the reign of Peter the Great (1682–1725) to the early nineteenth century, however, the Russian law remained vague in the extreme. In a decree dated October 27, 1699, Peter encouraged merchants to organize “trading companies [*torgovye kompanii*], as in other states,” to export raw materials from Archangel, Astrakhan, and Novgorod. Unfortunately, this document left undefined the very meaning of “company” and failed to mention the principle of limited liability. Firsov explained Peter’s inattention to such details by advancing the plausible supposition that the monarch’s main purpose in fostering foreign and domestic commerce was to increase the revenues of the state; it did not occur to him to establish rational incentives for the merchants who were called upon to bear the risks of such undertakings.<sup>11</sup>

Peter’s decree typified both his enthusiastic admiration for European technology and his disdain toward European legal norms such as the inviolability of private property. The energetic autocrat, who terrorized underlings by wielding his famous staff (*dubina*), had no patience with market forces. He knew all too well the traditional secretiveness and acquisitive spirit of the Russian merchants and apparently failed to realize that these precapitalist attitudes were unfortunately reinforced, if not caused, by the state’s penchant for arbitrary taxation and its refusal to allow anyone but the gentry (*dvorianstvo*) to purchase land populated with

<sup>11</sup> Peter’s decree appears in *PSZ* 1–1706. Avgust I. Kaminka, *Aktsionernaia kompaniia: iuridicheskoe issledovanie* (St. Petersburg, 1902), 377, described several ventures launched by influential statesmen in the eighteenth century; he argued that such enterprises enriched not the stockholders but the promoters. The index to the first series of the *PSZ* mentions no corporate charters under the headings “trading company” (*torgovaia kompaniia*) and “trading partnership” (*torgovoe tovarishchestvo*); has no entries at all for other words denoting “company” – *aktsionernoe obschestvo*, *kompaniia*, *obschestvo*, or *tovarishchestvo*; and lists factories and plants (*fabriki i zavody*) only by function, usually with reference to state-owned armaments plants.

serfs.<sup>12</sup> Peter's reliance on brute force was illustrated by the text of one of the earliest documents that can be considered a charter (*ustav*) of a merchants' partnership. Although this decree, issued in 1711, mentioned neither limited liability nor the public sale of shares, it authorized the transfer of a state-owned linen factory in Moscow to a group of merchants. Peter promised to reward them with his imperial favor (*milost'*) if the enterprise prospered; but if it failed, each partner would be fined a thousand silver rubles.<sup>13</sup> A less effective incentive for entrepreneurship could hardly be imagined.

Catherine the Great (1762–96), although better educated than Peter, likewise showed little solicitude for corporate enterprise. Her practice of lavishing state wealth on a small circle of courtiers represented a continuation of the policy of Empress Elizabeth, who had allowed treasury officials like Count Petr I. Shuvalov to amass a fortune from such privileges as the monopoly on fishing rights on the White Sea. The empresses' favoritism apparently had a hidden economic cost.<sup>14</sup> Merchants complained in vain that as bearers of the risks and of state taxes associated with commerce and industry, they should enjoy a monopoly on such activities instead of being forced to compete in the market against gentry landlords, who bore no taxes and benefited as well from their monopoly on unpaid serf labor. Successful entrepreneurs might grow rich under such a system; but even the largest undertakings, like those of the remarkable Demidov family, ironmasters in the Ural mountains, did not take the form of the corporation.<sup>15</sup>

<sup>12</sup> A. Leroy-Beaulieu, *L'empire des tsars et des Russes*, 3 vols. (Paris, 1881–9), vol. 1, 304–5; Aristide Fenster, *Adel und Ökonomie im vorindustriellen Russland: Die unternehmerische Betätigung der Gutsbesitzer in der grossgewerblichen Wirtschaft im 17. und 18. Jahrhundert* (Wiesbaden, 1983), esp. chap. 5 on the conflict between the gentry and merchants over the right to engage in industrial enterprises. Fenster's bibliography contains many useful references to recent scholarship on this important issue. A detailed study of the merchants' legal disadvantages, including the gentry's exclusive right to own land populated with serfs, is Manfred Hildermeier, *Bürgertum und Stadt in Russland 1760–1870: Rechtliche Lage und soziale Struktur* (Cologne, 1986). Part I, chap. 4, *Standesflucht*, describes the striving of prosperous merchants to rise into the gentry estate to receive its legal advantages, thus weakening the merchant estate still further.

<sup>13</sup> PSZ 1–2324, dated February 28, 1711.

<sup>14</sup> On P. I. Shuvalov (1710–62), *RBS*, vol. 23, 490–503. A thorough study of aristocratic entrepreneurs, complete with tables of major enterprises in various sectors, is Fenster, *Adel und Ökonomie*.

<sup>15</sup> "Rukavkin, Danila," in *RBS*, vol. 17, 435. An informative account of the obstacles to merchant entrepreneurship under Catherine is Wallace C. Daniel, "Grigorii Teplov and the Conception of Order: The Commission on Commerce and the Role of the Merchants in Russia," *Canadian-American Slavic Studies*, 16, nos. 3–4 (Fall–Winter 1982), 410–31. See Nikolai I. Pavlenko, *Istoriia metallurgii v Rossii XVIII veka: zavody i zavodovladel'tsy* (Moscow,

Catherine herself seemed unaware of the economic benefits of a firm legal order. Although she founded the great port of Odessa in 1794, granted tracts of land to German Mennonite farmers, and encouraged the Free Economic Society, she destroyed institutions of self-government in Riga and other Baltic ports and thereby earned the everlasting resentment of the German merchants there.<sup>16</sup> She issued no general law to encourage or regulate corporations. Her only mention of them occurred in a decree enumerating the powers of the police to enforce the regulations of each “society, partnership, brotherhood, or similar institution,” and to “destroy and ban” any that injured “the general welfare.” During Catherine’s entire reign, the state chartered only four corporations, two of which were to export a raw material, grain, to Europe.<sup>17</sup>

In 1799, Paul I approved the creation of the Russian-American Company, formed by the merger of two partnerships of merchants active in the fur and fishing trades along the Siberian and Alaskan coasts. However, this company enjoyed so many governmental privileges, including a monopoly on the sale of furs, that it can best be understood as a mechanism by which the state sought to derive tax revenues from the eastern frontier of the empire. In fact, a third of the company’s profits passed to the state, and its leading figure, Aleksandr A. Baranov (1747–1819), functioned as the de facto governor of Alaska. The corporate form of organization had the singular benefit of placing the natural resources of Alaska in the hands of merchants, not bureaucrats, but after Baranov’s death the company earned ever smaller profits. Only in 1821 did its investors begin to enjoy limited liability. Eventually an enormous drain on the treasury, the Russian-American Company fell under direct state control in the 1840s. It perished quietly after the sale of Alaska to the United States in 1867.<sup>18</sup>

1962), esp. chap. 8, section 3, on the movement of successful metal producers into the gentry estate. On the Demidov family, *RBS*, vol. 6, 209–32; and Hugh D. Hudson, Jr., *The Rise of the Demidov Family and the Russian Iron Industry in the Eighteenth Century* (Newtonville, Mass., 1986).

<sup>16</sup> See G. G. Marazli, ed., *Iz proshlogo Odessy: sbornik statei*, comp. L. M. de-Ribas (Odessa, 1894); and Patricia Herlihy, *Odessa: A History, 1794–1914* (Cambridge, Mass., 1986). On the Baltic cities, an especially vigorous indictment of Russian rule is Julius Wilhelm Albert von Eckardt, *Bürgerthum und Bürokratie: Vier Kapitel aus der neuesten livländische Geschichte* (Leipzig, 1870), viii–ix. C. Mettig, *Geschichte der Stadt Riga* (Riga, 1897), also idealized the medieval system of self-government and criticized the diminution of the city’s liberties in the eighteenth century.

<sup>17</sup> *PSZ* 1–15379, dated April 8, 1782, articles 64 and 65. The corporate charters appear in *PSZ* 1–12904, dated June 1, 1767, and *PSZ* 1–13886, dated October 18, 1772. Only four corporate charters appear in the *Polnoe sobranie zakonov* under Catherine II, but it is possible that others were approved without being published.

<sup>18</sup> This company has received more attention from historians than any other in Russian

The first general decree to uphold the principle of limited liability for investors appeared in Russia in 1805. Emperor Alexander I, still in his relatively enlightened period, before the epic clash with Napoleon, issued a decree that cited a legal decision of the previous month, according to which the founders and stockholders of a bankrupt shipbuilding company were not to be held personally liable for the debts of the enterprise. To allow creditors to collect the company's debts from individual stockholders, it announced, would be "completely contrary to the very essence of this kind of company." In an implicit reference to the charter of this company, issued in 1782, the decree reiterated "the rule that a joint-stock company is liable only for the capital invested in it [*pravilo, chto aktsionernaia kompaniia otvechaet odnim skladochnym kapitalom*] and that in case of failure [*pri neudachakh*] none of its stockholders shall lose any more capital than he has invested in the company."<sup>19</sup>

Less than two years later, a statute dated January 1, 1807, clearly demarcated joint-stock companies from smaller enterprises that neither provided limited liability for investors nor required confirmation by the tsar.<sup>20</sup> The terminology employed in the law of 1807 remained in use for more than a century.

Under the system of social estates by which the autocratic state ordered Russian society from 1649 to 1917, merchants enjoyed the right to engage in commerce and industry as well as certain privileges, such as freedom from military duty and corporal punishment, in exchange for an annual guild membership payment and unpaid service in various elective municipal posts.<sup>21</sup> Although exceptions to these rules in favor of the gentry had

history. See Mary E. Wheeler, "The Origins of the Russian-American Company," *Jahrbücher für Geschichte Osteuropas*, N.S., 14, no. 4 (Dec. 1966), 485-94. On Baranov, see the article by S. Ogorodnikov, *RBS*, vol. 2, 478-9; and Alton S. Donnelly, "Baranov, Aleksandr Andreevich," in *MERSH*, vol. 3, 88-92. Three informative studies of the company's operations are Semen B. Okun', *The Russian-American Company*, trans. Carl Ginsburg (Cambridge, Mass., 1951); Richard A. Pierce, ed., *Documents on the History of the Russian-American Company*, trans. Marina Ramsey (Kingston, Ontario, 1976); and P. A. Tikhmenev, *A History of the Russian-American Company*, trans. and ed. Richard A. Pierce and Alton S. Donnelly (Seattle, 1978). Since 1972, Pierce has published an impressive series of monographs and documents on Russian America at his Limestone Press in Kingston, Ontario. A useful overview, with bibliography, is Alton S. Donnelly, "Russian-American Company," in *MERSH*, vol. 32, 38-44. On limited liability, *PSZ* 1-28756 (1821).

<sup>19</sup> *PSZ* 1-21900, dated September 6, 1805. The charter of this company does not appear in the *PSZ* volumes for 1781, 1782, or 1783 and presumably was never published as an imperial statute, as it should have been.

<sup>20</sup> *PSZ* 1-22418.

<sup>21</sup> Historians employ the word "estate" to denote the Russian *soslovie*, although in Muscovy and imperial Russia the estates enjoyed far fewer rights of self-government than did their counterparts in Europe: the French *états* and the German *Stände*. The Russian word *kupets*

severely eroded the merchants' nominal monopoly on trade and manufacturing,<sup>22</sup> the law of 1807 reiterated these privileges and specified the various kinds of enterprises in which merchants were to pursue their businesses and from which persons in all other estates were to be excluded. These were, one, the simplest form of business firm, composed of a single merchant enrolled in one of the three urban guilds; two, a "full partnership" (*polnoe tovarishchestvo*), in which all the partners, members of the same merchant guild, assumed full liability for the debts of the firm; and three, a "limited partnership" (*tovarishchestvo na vere*), composed of full partners and outside investors of any social estate. Only the last enjoyed limited liability.<sup>23</sup> These two forms of partnerships, called "trading firms" (*torgovye doma*; singular, *torgovyi dom*), did not require the approval of the central government. They were established by the full partners through the signing of a contract, which was then presented to the municipal clerk. The many thousands of such firms in Russia lie outside the scope of the present study.<sup>24</sup>

is generally translated as "merchant," but under Russian law the merchants (*kuptsy*; collective noun, *kupechestvo*) could own and operate manufacturing enterprises as well. Some informative recent works on the impact of the estate structure on Russian urban life are Hans-Joachim Torke, *Die staatsbedingte Gesellschaft im Moskauer Reich: Zar und Zemlja in der altrussischen Herrschaftsverfassung 1613–1689* (Leiden, 1974); J. Michael Hittle, *The Service City: State and Townsman in Russia, 1600–1800* (Cambridge, Mass., 1979); Alfred J. Rieber, *Merchants and Entrepreneurs in Imperial Russia* (Chapel Hill, 1982); Manfred Hildermeier, "Was war das meščanstvo?: Zur rechtlichen und sozialen Verfassung des unteren städtischen Standes in Russland," *Forschungen zur osteuropäischen Geschichte*, 36 (1985), 15–53; and Hildermeier, *Bürgertum und Stadt*. Gregory L. Freeze, "The *Soslovie* (Estate) Paradigm and Russian Social History," *American Historical Review*, 91, no. 1 (Feb. 1986), 11–36, esp. 14–21, addresses the semantic problems associated with the application of the term *soslovie* to eighteenth-century Russia.

<sup>22</sup> See the laws on "trading peasants" (*torgiushchie krest'iane*), which allowed the gentry to receive dues called *obrok* in cash or kind from serfs engaged in trade: *PSZ* 1–10486, dated December 1, 1755; *PSZ* 1–14275 of March 17, 1775; *PSZ* 1–24992 of February 11, 1812; *PSZ* 1–25113 of May 22, 1812; and *PSZ* 1–25302 of December 29, 1812.

<sup>23</sup> For an intelligent discussion of these forms of enterprise, see V. Maksimov, *O tovarishchestvakh*, 2nd ed. (Moscow, 1911), 7–28; and the relevant articles in the Commercial Code, 2126–2138, reproduced in Maksimov, 58–66.

<sup>24</sup> The number of trading firms grew from 1,625 in 1892 to 3,593 in 1905, 5,801 in 1911, and 9,202 in 1914, but their aggregate economic importance remained minor. In 1914, for example, the entire basic capital stock of over nine thousand trading firms amounted to 333.1 million rubles (an average of 36,199 rubles), while the 2,263 corporations, excluding railroads, in the empire in that year were based on stock worth 4.6 billion rubles, an average of over two million per company. Leonid E. Shepelev, *Aktsionnyye kompanii v Rossii* (Leningrad, 1973), 232–3; Shepelev, "Chastnokapitalisticheskie torgovo-promyshlennyye predpriiatiia Rossii v kontse XIX-nachale XX vv. i ikh arkhivnye fondy," *Informatsionnyiulleten' Glavnogo arkhivnogo upravleniia MVD SSSR*, 1958, no. 10 (Oct.), 79. Valerii I. Bovykin, *Formirovanie finansovogo kapitala v Rossii, konets XIX v.–1908 g.* (Moscow, 1984), 111–19, provides precise statistics showing the relative shares of total production by joint-stock companies, share partnerships, and trading firms in various sectors.



The law of 1807 devoted only two sentences to the corporation. Part 1, article 1, noted that members of any free estate – notably the gentry – were entitled to participate in a corporation without joining the merchant estate.<sup>25</sup> However, because corporations enjoyed the privilege of limited liability and could be established only for undertakings of national economic importance, their creation required the permission of the tsar himself. Further than this the laws of 1805 and 1807 did not go. No reference was made to the internal structure of a corporation or to the rights and responsibilities of its managers and stockholders. Such details appeared only in the charter of each new company, which functioned essentially as a separate statute in the absence of a general corporate law.

Unfortunately, even the uncomplicated decrees of 1805 and 1807 allowed a certain terminological confusion to develop, one that was destined to persist to the very end of the tsarist period. The law of 1807 differentiated the corporation from the full and trust partnerships by calling it, somewhat awkwardly, a “partnership with shares” (*tovarishchestvo po uchastkam*), such shares to be sold to investors under the principle of limited liability. Various charters granted to corporations in the preceding decades had employed other names for the corporation, based on either French or Russian words. The terms *aktsioneroe obshchestvo* and *aktsionernaia kompaniia* derived from the French words for “company” (*société* and *compagnie*) and for “share” (*action*), either through translation (*obshchestvo* for *société*) or direct borrowing (*kompaniia* for *compagnie*; *aktsiia* for *action*). The Russian words *tovarishchestvo* (partnership) and *pai* (share) also appeared in tsarist documents, as in the phrase *tovarishchestvo na paiakh* and *paevoe tovarishchestvo*. (Strangely enough, the official term *tovarishchestvo po uchastkam* occurred only rarely in the charters themselves.) These inconsistencies continued in later years. In 1826, for example, one charter referred to the enterprise as a *torgovaia kompaniia* in the title and a *torgovoe obshchestvo po aktsiiam* in the text.<sup>26</sup>

It is essential to note that, whatever name a given company happened

<sup>25</sup> Articles 6 and 7 did mention, however, that a law dated November 4, 1802, confirmed the right of a member of the gentry not on active military duty or in civil service to enroll in the first or second merchant guild as a wholesale trader without losing his gentry privileges. The gradual decay of the estate system in the century before 1917 under the influence of decrees such as these remains to be examined in detail by historians. Hildermeier, *Bürgertum*, makes this phenomenon one of his major themes, for example, in his discussion of “the crisis of the guild merchants” at the end of Catherine’s reign and “the de facto dissolution of the urban estates” under the impact of guild reforms promulgated in 1863 and 1865.

<sup>26</sup> *PSZ* 2–145, dated February 13, 1826.

to bear, all enterprises distinguished by their imperial charter and guarantee of limited liability to investors operated for the next century under a single system of corporate law. In the chapters that follow, the English words "corporation" and "company," essentially synonyms, will apply to them all. When it becomes necessary to make finer distinctions, the term "joint-stock company" will be used for the *aktsionernoe obschestvo* or *aktsionernaia kompaniia*, and "share partnership" will denote the *tovarishchestvo na paiakh*.

The rudimentary nature of the law of 1807 may be seen as an indication of the government's lack of interest in corporate enterprise, even in the post-Napoleonic era, when corporations began to develop rapidly in Europe. One of the leaders of the rebellion against autocracy in December 1825 blamed the government for having stifled the entrepreneurial spirit within the Russian merchant elite:

In the first two [merchant] guilds there are many well-trained, capable, and rather enterprising people whose character bears the imprint of the Russian national spirit [*ruskoi narodnosti*], . . . but, lacking encouragement from the government, they remain restricted to the most paltry activities; without sufficient capital to create companies, they have left all the benefits of external commerce to foreigners and content themselves with enterprises of limited significance.<sup>27</sup>

This critic grasped the essential incompatibility between traditional methods of autocratic rule and the modern capitalist economy, in which the corporation occupied a central position. In Weberian terms, the proponents of corporate enterprise from the 1820s onward advocated "rational-legal" norms of bureaucratic policy and administration, which would promote the development of capitalist institutions. In contrast, the tsars and their ministers adhered to their familiar mode of behavior, best described as "military-autocratic." Strictly speaking, the Romanov monarchy qualified as a "traditional" regime in Weber's terminology because it drew its legitimacy from tradition, but this term obscured the reforming zeal with which tsarist ministers, often endowed with superior education and impelled by the highest ideals of state service, mandated sweeping

<sup>27</sup> Aleksandr I. Iakubovich, "Pis'mo k imperatoru Nikolaiu Pavlovichu," dated Dec. 28, 1825, in A. K. Borozdin, ed., *Iz pisem i pokazanii dekabristov: kritika sovremennogo sostoiianiia Rossii i plany budushchego ustroistva* (St. Petersburg, 1906), 79, quoted in A. I. Klibanov, "Aleksandr Ivanovich Iakubovich: deistvitel'nost' i legenda," *Istoricheskie zapiski*, 106 (1981), 234. Klibanov noted that Iakubovich, who had met representatives of the British East India Company in Tiflis, may have had that great company in mind when he criticized the Russian government for its apathy.